

Chief Executive's report

Chris Pilling



Great legacy - bright future

I have inherited a fantastic legacy including an excellent performance for 2011. I am very optimistic about the future for the Yorkshire, which I am committed to ensuring will see us continue to pursue our vision – 'to be the best organisation that our customers do business with'.

I am delighted to have joined Yorkshire Building Society at such an exciting time. The Society has a long-held reputation for delivering outstanding value and excellent service to its members. It is clear to me that at a time when 'trust' in banks is at an all-time low, the Yorkshire's success is based on its committed people, mutual status and operating principles that are the foundations of its financial strength.

I am pleased to report that the Yorkshire achieved an excellent performance for 2011 with significant growth in mortgage and savings balances, an increased level of operating profit, stable net interest margin and robust capital and liquidity positions.

Vision and strategy

The Yorkshire is an independent mutual building society and is committed to remaining one. It is a business which has been built around its members for 147 years. Our vision is simple; 'to be the best organisation that our customers do business with' and the Yorkshire aims to achieve this by providing its members and other customers with a comprehensive range of mortgage, savings, investment and insurance products that provide them with financial security and long-term value, backed up by excellent personal service.

During 2011 this approach to running the business resulted in a significant amount of positive external recognition, including over 2,800 'Best Buy' mentions[†], averaging 54 per week, and a wide range of industry awards.

2011 WINNER
Mortgage Finance Gazette Awards
Best National Building Society

The Society made significant progress during 2011 against the strategic priorities set out by Iain Cornish in his Chief Executive's report for 2010:

Delivering an exceptional customer experience

- Once again our members confirmed that the Yorkshire delivered a great customer experience; 9 out of 10 respondents to our regular customer surveys said that they would recommend the Yorkshire to their family or friends. Another key indicator of how effectively the Group is delivering an exceptional customer experience is the net promoter score, which in 2011 continued to rank the Yorkshire well above the average for the financial services industry. Our net promoter score refers to the net percentage of customers who, when responding to the question "how likely is it that you would recommend us to a friend or colleague?" would either recommend or detract from the organisation.
- During 2011 the Society piloted a branch revitalisation programme which focussed on enhancing the position of branches at the heart of the communities in which they operate. Following the success of the pilot a number of initiatives are being rolled out across our branch network, with further pilots taking place across all of our brands in 2012. In addition to investing in existing branches, we will continue to look for opportunities to open additional branches and agencies in new locations. We currently intend to open twelve new branches over the next two years.
- A number of new products were launched in 2011 including the Yorkshire's 'Triple Access Saver' account. This product was designed using feedback from the Society's Member Panel and provides savers with the flexibility to access their money three times a year whilst earning an attractive rate of interest.

It has successfully attracted over 8,000 new customers and has been a best-selling account in the year.

- The Yorkshire strives to ensure that customers are treated fairly; this ethos is illustrated by the fact that the Financial Ombudsman Service overturned only 1 in 9 complaint decisions in favour of the customer which compares very favourably with the average for the financial services sector, in which the Ombudsman overturned nearly 1 in every 2 cases*.

Maintaining a high level of financial strength and stability

The Group achieved a very strong financial performance in 2011 in very challenging economic and market conditions. Some of the highlights of the Group's performance, which include the merger and acquisition activity undertaken during the year, include:

- **Increased profit;** statutory profit before tax increased to £130m (2010: £115m) and core operating profit £163m (2010: £128m), representing a continuation of the trend reported at 31 December 2010. Core operating profit gives the Board a clear view of the Group's ongoing performance as it excludes shorter-term distortions, both positive and negative.
- **Maintained capital strength;** core tier 1 capital ratio 12.6% (31 December 2010: 12.4%).
- **Higher total assets;** 9% increase to £32.6bn (31 December 2010: £30.1bn).
- **Increased members' savings balances;** 21% increase to £26.0bn (31 December 2010: £21.4bn).
- **Increased mortgage balances;** 14% increase to £26.7bn (31 December 2010: £23.3bn).
- **Lending volumes increased;** gross mortgage lending of £4.1bn (2010: £2.8bn).

[†]Source: PressWatch Financial from Kantar Media



Chief Executive's report cont.

Further details about the Group's business performance and position are explained in detail in the Business Review which is contained in the 2011 Annual Report and Accounts. The review and the accounts are available on our website www.ybs.co.uk/annualreport, from any branch or by calling the number quoted on the Chairman's letter.

Ensuring our people are well trained, rewarded fairly and committed to delivering for our members

The results of regular feedback surveys support the belief that our people are committed to and engaged in delivering the Society's strategy. The results of the last survey in May 2011 showed that the Yorkshire's performance on more than 9 out of 10 key indicators was better than, or in line with, comparable UK financial services organisations; in some instances it was better by more than 20 percentage points¹. The General Management team are not complacent about these results. As noted in the Chairman's welcome, 2012 will see continued focus by the Board on our people strategy which will ensure that our people continue to work in a friendly and inclusive culture, are equipped to deliver a customer experience that differentiates us from others and are rewarded fairly for doing so.

Continually improving our administrative processes and systems

During 2011 the Group completed the successful integration of Chelsea Building Society into the Yorkshire following our merger in 2010, which included transferring many of the Chelsea systems onto a common

Society-wide platform. A new paperless online mortgage application process was rolled out to Chelsea customers during the year, enhancing the service provided to them. This is one example of our approach to invest continually in all of the Group's brands.

The Yorkshire continued to invest in its arrears management processes. This is critical in times of challenging economic conditions when some borrowers will face difficulties. The Group has developed a range of measures, commonly known as 'forbearance', which can be used to help manage these circumstances. At all times we aim to try to help the borrower through short-term difficulties and avoid creating future problems for them, protecting the interests of our members.

Significant investment in many of our systems and processes is planned for 2012 and beyond, including improving the efficiency and effectiveness of the core business systems. This will enable our people to continue to provide the best possible levels of customer service across each brand and distribution channel.

Looking ahead and seizing opportunities

The year presented the Yorkshire with two important opportunities in the shape of a merger and an acquisition. Last year my predecessor said that in the right circumstances we would take the opportunity to grow by merging with smaller societies. The merger with Norwich & Peterborough Building Society (N&P) was one such opportunity. The merger completed on 1 November 2011 and work

on integrating the business is well underway. The Society also completed the acquisition of the mortgage and savings business of Egg Banking plc on 31 October 2011. We have already announced that we intend to take the opportunity to develop new products and services as a result of these transactions. More information on these developments is set out below under 'Corporate development'.

In 2011 the Group made a cautious re-entry into the buy-to-let market and we intend to develop a presence in this growing area of the mortgage market over the course of this year.

Our strategic priorities are the areas in which the Group is investing significant resources in order to deliver our strategy and vision. The focus of our strategic priorities is reviewed regularly by the Board to ensure they remain targeted at the areas that will ultimately deliver the greatest benefits to members.

Community role

The Society's branch and agency network operates at the heart of communities across the UK. At a time when many institutions have been closing their high street branches in order to cut costs, we have continued to invest and have increased the size and reach of our network, providing more members with face-to-face access to products and services, which they have told us they value. At the end of the year our growing network of branches and agencies was the 9th largest of all UK banks and building societies in the UK and comprised:

- 135 Yorkshire branches.
- 46 N&P branches.
- 35 Chelsea branches.
- 8 Barnsley branches.
- 94 Yorkshire agencies.

As at 31 December 2011 the Society operated

224 branches and 94 agencies, demonstrating the huge investment that has been made over the past five years (2006: 131 branches and 71 agencies).

The Society recognises that branches play an important role in their local communities and for this reason the branch revitalisation programme is working to enhance the already differentiated customer experience that they offer, as well as embedding further the position of each branch in its local community.

Irrespective of the challenging economic conditions, the Society remains committed to providing support to good causes and charities through its corporate responsibility programme 'Societies Together'.

Some of the highlights in 2011 include:

- **Charity of the Year** - staff raised over £85,000 and, with a donation from the Yorkshire Building Society Charitable Foundation, the Alzheimer's Society received £175,000.
- **Yorkshire Building Society Charitable Foundation** donated over £462,000 to more than 2,000 charities, of which 90% were member nominated.
- **Make a Difference Week** received over 1,600 nominations for donations to local causes that are important to our members.
- **Successful launch of Small Change, Big Difference™ scheme** to members who joined the Group as a result of our merger with Chelsea - 11% of these members have already signed up.
- **Over 177,000 accounts joined Small Change, Big Difference™ scheme** in 2011; resulting in just under 800,000 members now participating in the scheme.

¹Source: ORC International Benchmark Report 2011



Chief Executive's report cont.

- **Over 3,500 volunteer hours were completed by staff** working on around 60 projects in our local communities.

Further details are set out in the Societies Together section on pages 31 and 32.

Corporate development

The core strength and stability of the Society has enabled it to undergo a transformational level of corporate development over recent years, in particular completing two large mergers and a material business acquisition, all of which serve to grow the business and strengthen its long-term position. The Group's development over the past two years has seen our membership grow by over 57% (2011: 3.3m, 2009: 2.1m). It is at this point appropriate to review the key aspects of those recent developments and to comment on the position looking ahead:

Chelsea

Integration of the Chelsea, including migration of core systems is now complete. The integration programme was successfully delivered by internal teams in line with our plans, achieving annualised synergies of £33.5m as at 31 December 2011; these are expected to exceed £36m per annum by the end of 2012. The experience of merging with and subsequently integrating a large building society has strengthened the skills and confidence of many of our people and this experience proved invaluable when undertaking further transactions in 2011.

N&P

The Yorkshire completed the merger with N&P on 1 November 2011 and work on integrating the business is well underway. N&P's members voted overwhelmingly in favour of the merger and I welcome them to the Society. The merger brought together two organisations sharing similar values, including a strong commitment to mutuality. The Group has gained the opportunity to consider developing our own products in areas where N&P has complementary capabilities and expertise, such as the current account market.

Egg

The Yorkshire acquired the mortgage and savings business of Egg Banking plc on 31 October 2011. The acquisition brought savings balances of £2.1bn and a £0.4bn mortgage book to the Society. The additional retail funds acquired are supporting our appetite to increase mortgage lending in 2012. I would like to welcome Egg savers and borrowers who became members of the Society on completion of the transaction. The Group will seek to extend the functionality of Egg Money Manager across all of its brands; Money Manager enables customers to view all of their online accounts together in one place irrespective of which institution they are held with.

Our position on merger activity and integration

'Looking ahead and seizing opportunities' is one of the Yorkshire's strategic priorities. To date the focus of this priority has been on

undertaking strategic mergers and acquisition activities. Our focus for 2012 will shift from further potential mergers to ensuring that we take full advantage of the opportunities that a larger business presents us with, which includes effectively integrating N&P and the business acquired from Egg Banking plc, delivering planned synergies and leveraging newly acquired knowledge and skills to improve the range of products and services offered to members.

Further consolidation is anticipated in the building society sector and the Yorkshire remains of the view that mergers between building societies are preferable to combinations with institutions from outside the sector. We will consider further mergers provided we are satisfied that they are clearly in the interests of current and future members and that the resources demanded by the subsequent integration work remain inside the Society's operational capacity and risk appetite.

Our people

As explained above, our people are a key focus of our strategic priorities and the General Management team know that it is the attitude, skills and commitment of these individuals above all else that makes the business successful. Our members benefit from people who are genuinely committed to providing excellent service to customers. On a daily basis my colleagues bring the vision and values to life across all of the Society's brands and locations.

The Society's growth has resulted in many new colleagues joining the business. This is illustrated by the growth in employee numbers over the last five years; the average total number of people employed at the end of the year was 3,266 (2006: 2,337). During this period of merger-led growth, the Society's

values of fun, fairness, passion and people working together have been preserved and our people strategy will, in 2012, set the future direction for all our people in our larger and more complex business.

I welcome the colleagues who joined the Society during the year following the merger with N&P and thank them for their resilience during what has been a period of inevitable uncertainty for them. I know they share our commitment to providing our members and other customers with the highest possible standards of service and have no doubt that they will play an important role in extending the Society's customer experience to a growing membership.

Looking ahead

I have inherited a great legacy and am excited about working with my colleagues to address the challenges that will take the Yorkshire forward. We will continue to develop and invest in the attributes of the business that differentiate us from competitors, as well as making changes where needed to enable our people to deliver the strategy and achieve our vision 'to be the best organisation that our customers do business with'.

The Yorkshire has a tremendous opportunity to build on its position and I am very much looking forward to being a part of that. I am committed to maintaining the Group's status as an independent mutual building society, focussed on the interests of current and future members and providing a real and trusted alternative to the banks.

Chris Pilling, Chief Executive
22 February 2012

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